Compare and contrast perfect competition and monopolistic competition. also expla...

Essay One Monopolistic Competition Monopolistic competition as the signifies is a blend of monopoly and competition. It is systematic and realistic theory of price analysis in this imperfectly competitive world. Monopolistic competition is a market situation in which there are relatively large numbers of small firms, which produce or sell similar but not identical commodities to the customers.

The number of firms in Monopolistic competition is fairly large. Under the Monopolistic competition, the firms sell differentiated products. Product differentiation may be real or imaginary. Another very important characteristic of the Monopolistic competition is that each firm tries to create difference in its product from the other by advertising, propaganda, attractive packing, nice smile, etc. The entry of new firms in the monopolistically competition industry is relatively easy. There are no barriers of new firms to enter the product group or leave the industry in the long run. In perfect competition model, it was assumed that there was large number of firms producing homogenous product. In the case of monopoly, there was only one seller of a product. Both these models were thus polar extremes and were considered satisfactory for the market price analysis in economic theory.

Under perfect competition, the demand curve which an individual seller has to face is perfectly elastic, i. e. it runs parallel to the base axis. The competitive seller being unable to affect the market price sells its output at the prevailing market price. Hence marginal revenue equals the price of the product. The average-revenue is identical to its marginal revenue. Thus under perfect competition MR= AR= Price and the three curves coincide and are perfectly elastic. This is, however, not the case under monopoly. The monopolist is the sole supplier of a product in the market. He has full powers to make decisions about the pricing of his product. He is a price taker. If he lowers the unit price of his product, his' sale is increased, if he raises the price, he will not lose his entire sale (Lawrence).

Essay Two

Keynesian Income Expenditure Model

The simple Keynesian income expenditure model builds two main suppositions: 1. Prices, incomes and the attention rate are all settled 2- production is demand determined –extra capability will be employed by firms to provide as a great deal output as clientele desire to buy

The altitude of production relies upon simply the whole level of demand (collective demand) in the financial system as a whole

To begin off we will seem at a financial system in which there are immediately two areas – domestic and firms

AD = C + I

Equilibrium

Intended collective spending equivalents the output that is really shaped

Production produced = production demanded two final points

1. Note the difference among planned and unintentional investment

2. There is no cause why equilibrium outcome should be at the complete used output stage

The Government Sector

The government sector has two functions to cooperate inside the economy

- It is a buyer of supplies and services (G)

- It is a taxer of domestic profits (T)

There is no cause why the government's expenditure and tax income should be the similar

- when expenditure is equivalent to revenue (G= T) the government is supposed to be organization a balanced financial plan
- when-spending goes beyond revenue (G> T) the government is supposed to be management of a financial plan deficit
- when income goes beyond spending (T> G) the government is thought to be running a budget extra

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